

# **SAN DIEGO COUNTY ASSESSMENT PRACTICES SURVEY**

## **MARCH 2000**

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### **CALIFORNIA STATE BOARD OF EQUALIZATION**

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April 28, 2000

TO COUNTY ASSESSORS:

No. 2000/025

### SAN DIEGO COUNTY ASSESSMENT PRACTICES SURVEY

Here is the San Diego County Assessment Practices Survey Report. The Board completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the State Board of Equalization shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, including the county assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey of the San Diego County Assessor's Office was conducted by the Board's County Property Tax Division during September 1998 through February 1999. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Gregory J. Smith, San Diego County Assessor/Recorder/Clerk, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

We invite your comments and exchanges of information, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere.

Sincerely,

Richard C. Johnson  
Deputy Director  
Property Taxes Department

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## INTRODUCTION

Although the primary responsibility for local property tax assessment is a function of county government, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest stems from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial impact is that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the major State efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) is required to periodically review (survey) every county assessor's office and publish a report on the survey findings. This report reflects the Board's findings in its periodic survey of the San Diego County Assessor's Office.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the San Diego County grand jury and assessment appeals board. The response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The assessor elected to file his initial response prior to publication; the response is included in this report following the Appendix.

Management audit reports typically emphasize problem areas, with little said about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see *Scope of Survey*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

## **SCOPE OF SURVEY**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the Board's survey team.

In addition, Revenue and Taxation Code section 75.60 requires the Board to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in the Appendix.

Our survey of the San Diego County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in San Diego County with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 1998-99 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in the Appendix.

An assessment practices survey is not an audit of the assessor's entire operation. We did not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment, nor did we review or report on the assessor's duties relating to the functions of county clerk and county recorder.

## EXECUTIVE SUMMARY

- In our prior survey, we made 17 recommendations. Of those recommendations, the assessor implemented ten of the changes we recommended, implemented two in part, and did not implement five. Most of the recommendations that were not implemented or that were implemented only in part are repeated in this report.
- For 1997-98, the assessor met the performance measures required by the county's contract with the state's Department of Finance. Our findings are described in *State-County Property Tax Administration Program*.
- With few exceptions the assessor's staff appraisers are current in their mandatory training requirements. The deficiencies are minor, but we urge the assessor to eliminate them.
- Major improvements have been made to computer and technology-related systems. These improvements have reduced record storage, added on-line access to several types of records, improved public access to maps, and improved the review procedures for some assessment projects. Several additional projects were under way but incomplete at the time of our survey.
- We found no problems in the assessor's administration of disaster relief, assessment roll corrections, or administration of assessment appeals.
- With one exception, the assessor has a highly effective and efficient program for discovering, appraising, and enrolling changes in ownership of real property. The assessor corrected the deficiencies we found in our previous survey and also made several other improvements to various phases of the program. The exception concerns improvement bonds.
- Our two most recent survey reports for San Diego County included recommendations to update income information for properties assessed under the California Land Conservation Act (CLCA). This has not been done, and the incomes that were outdated several years ago are now older and less relevant. The assessor corrected the other significant deficiencies in the CLCA program reported in our previous survey.
- The assessor implemented the recommendation from our previous survey to revise the method of processing building permits. However, we found that further revisions are needed to ensure accountability of all permits.
- The assessor has an effective program for discovering and appraising properties that have experienced declines in value.
- In our previous survey we found several deficiencies in the assessment of taxable government-owned properties. The assessor corrected all but one of these deficiencies, and the remaining one is not material.

- We recommend that the assessor improve the discovery program for possessory interests by initiating a formal demand for possessory interest lease information from the United States Forest Service. The assessor implemented changes to address all the deficiencies we previously reported relating to possessory interest assessments.
- The assessor has an excellent program for valuing historical properties.
- We repeat our recommendation to classify manufactured homes as personal property, and we also recommend the assessor improve documentation for appraisals of manufactured homes and mail Change in Ownership statements in certain cases.
- We found two deficiencies in the discovery and appraisal of water company properties. The assessor should employ the income approach to value and should make a greater effort to ensure that all water company properties are assessed.
- The area of our greatest concern is the mandatory audit program, which is in arrears. The mandatory audits need be brought to current status. Qualifying racehorses are not included in the mandatory audit listing, and high-value boats and aircraft are not identified adequately to determine whether they should be included as mandatory audits. We repeat a recommendation for the expansion of the nonmandatory audit program.
- The business property division continues to use incorrect price index factors for appraising business personal property and equipment. Nevertheless, the overall valuation procedures for personal property and fixtures have improved due to a change from straight-line depreciation to the income stream premise recommended by the Board.
- We repeat our recommendations to verify whether certain equipment that was previously leased is assessed. The assessor implemented our previous recommendation concerning equipment leased by state assessees.
- The assessor improperly granted exemptions to 147 historical aircraft by accepting applications that were not notarized or acknowledged as required by law.
- Despite the problems noted above, we found that most properties and property types are assessed correctly and efficiently. We attribute this to the proactive efforts of the assessor and his management staff to discover and resolve issues. Among other things, biweekly meetings for all managers and supervisors ensure consistency and cooperation among divisions and branch offices.
- The county assessment roll easily meets the requirements for assessment quality established by section 75.60 of the Revenue and Taxation Code. Our sample of the 1998 assessment roll indicated an average assessment ratio of 99.56 percent, and the sum of absolute differences was 1.56 percent. Accordingly, the Board of Equalization certifies that San Diego County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order they appear in the text.

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# ADMINISTRATION

## BUDGET AND WORKLOAD

The County Property Tax Division's (CPTD) field appraisal team completed appraisals of 329 properties of all types assessed on the 1998-1999 San Diego County assessment roll. This roll contained a total of 884,812 assessments having a total enrolled value of \$156,566,928,831. (For a detailed explanation of CPTD's assessment sampling program, see the Appendix at the end of this report.) Sampling data indicated the roll was composed by property type as follows:

Property Type	No. of Assessments in the County	Enrolled Value
Residential	794,032	\$112,503,042,876
Rural	1,679	\$654,097,722
Commercial Industrial	89,082	\$42,384,902,198
Miscellaneous	19	\$1,024,886,035
Totals	884,812	\$156,566,928,831

Since the 1990-91 roll year, the total assessed value of county-assessed property on the assessment roll in San Diego County increased as follows:<sup>1</sup>

Year	Total Assessed Value (000)	Percent Increase	Statewide Percent Increase
91-92	131,654,430	8.0	8.4
92-93	137,388,436	4.4	5.4
93-94	139,652,858	1.6	3.1
94-95	140,715,848	0.8	1.3
95-96	142,192,293	1.0	0.7
96-97	142,590,838	0.3	1.3
97-98	146,215,373	2.5	2.8

<sup>1</sup> Table source: *State Board of Equalization Annual Reports*, Table 7, P. A-7.

For the fiscal year 1997-98, the San Diego County Assessor prepared an assessment roll on an approved budget of \$14,883,536, which is approximately a 10 percent increase over the last two years' budgets. This budget funded 277 permanent full time positions.<sup>2</sup> The professional staff budgeted to handle the real and business property workload consisted of 14 managers above the first-line supervisors, 95 real property appraisers, and 20 auditor-appraisers. Additional funds provided by the State-County Property Tax Administration Program, discussed in the following section of this report, provided an additional 49 positions for the 1997-98 fiscal year.

The real property workload for the 1997-98 assessment year in San Diego County included about 12,380 sales and other transfers, approximately 22,840 reassessments resulting from new construction discovered through building permits or other means, and approximately 191,772 reviews for decline in value assessments. The assessor's staff processed approximately 1,400 assessments restricted by the California Land Conservation Act. The staff processed 4,840 property splits and 7,250 new subdivision lots. The real property division also performed many other tasks including assessment appeals and reassessment of properties affected by misfortune or calamity.

For the 1997-98 assessment year, the business property division processed approximately 53,700 business property assessments and valued 3,032 general aircraft, 31 certificated aircraft, and 12,300 vessels. In addition, the business property division completed 673 mandatory audits.

## **STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM**

Section 95.31 of the Revenue and Taxation Code<sup>3</sup> provides that upon recommendation of the assessor and by resolution of the county board of supervisors, the county may elect to participate in the State-County Property Tax Administration Program (PTAP). This is a program by which a county may apply for a loan to enhance its property tax administration system, reduce backlogs of new construction and changes in ownership, and maximize value enrollment capabilities. The majority of California counties participate in the program.

The county under contract for a PTAP loan does not necessarily repay the loan in cash. Each contract contains performance measures that must be met in order to have the loan amount forgiven. Satisfying the performance measures in theory would generate property tax revenues to schools greater than, or at least or equal to, the loan amount.

In November of 1995, the San Diego County Board of Supervisors, upon the recommendation of the assessor, adopted Resolution No. 95-417, which authorized the assessor to enter into negotiations for the purpose of producing an agreement under this program.

An agreement was executed for fiscal year 1995-96. This agreement provided a loan to the county in the amount of \$5,413,943 for fiscal year 1995-96, with an option for fiscal years 1996-97 and 1997-98. The loan amounts for 1996-97 and 1997-98 were also \$5,413,943, the maximum allowed by section 95.31.

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<sup>2</sup> Source document: *A Report of Budgets, Workloads, and Assessment Appeal Activities in California Assessors' Offices, 1997-98*, State Board of Equalization, June 1999

<sup>3</sup> All further statutory references mean the Revenue and Taxation Code unless otherwise specified.

In September 1997, the Governor signed new legislation (AB 719) extending this program until fiscal year 2000-2001. At that time, San Diego had a choice of receiving the funds in quarterly payments or a single payment in October provided the interest earnings from these funds were used to support the assessor and the PTAP. This provision is not specifically mentioned in AB 719, but was an agreement made with the Department of Finance.

In the letter dated August 4, 1998, the San Diego County Auditor-Controller verified that the assessor met the performance measures for all categories as specified by the contract between the state and the county for fiscal year 1997-98.

- The new construction assessment backlog goal of 350 was reduced to 114.
- The reappraisable change of ownership backlog goal of 700 was reduced to 156.
- The assessment appeal case backlog goal was reduced to 2,758.
- The backlog of reassessments for late and no reply property statements was reduced to 17.

In addition, funds were used to perform mandatory audits and to continue monitoring and processing decline in value assessments under Revenue and Taxation Code section 51. As a result of this effort, over \$3 billion in assessed value was added to the assessment roll for fiscal year 1997-98, and 103,455 parcels were reassessed.

For the fiscal year 1997-98, the funds received under this program were allocated approximately one-third to salaries and benefits (\$1,694,512), almost one-half to services and supplies (\$2,564,976), and a little less than 20 percent (\$979,009) went to fixed assets. Loan proceeds were used to increase staffing levels, to install new computer hardware, and to purchase and install a new document imaging system.

We congratulate the assessor for the efficient utilization of PTAP funds, and his success in meeting all contract performance measures.

## **TRAINING**

The Revenue and Taxation Code contains specific educational and training requirements that must be met and maintained for a person to perform the duties of a county property appraiser for property tax purposes. Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board of Equalization (BOE).

Section 671 further provides that all appraisers shall complete at least 24 hours of approved training each year in order to retain a valid appraiser's certificate. Advanced appraisers need only 12 hours of training each year. The BOE is charged with verifying that these requirements are met.

To qualify for an advanced appraiser's certificate, an applicant must have held an appraiser's certificate for three years and either (1) successfully complete a course of study, (2) pass an advanced level examination, or (3) hold a valid professional designation from a recognized professional organization.

Each year the assessor reviews a listing of any appraisers who are deficient in training hours to ensure compliance with section 671. Currently, the training records are updated manually. However, the assessor plans to implement a computerized database of all training records within the next few years.

Most of the assessor's appraisal staff met the statutory continuing education requirements, and all of the appraisers who are qualified to hold an advanced appraiser's certificate have one. Seven appraisers are deficient in the required training hours. Most of the deficiencies are 11 hours or less. But, two appraisers have a deficit of over 35 hours each. While we don't consider these deficiencies to be serious or an indication that the assessor is unconcerned with training, the assessor should ensure that his entire appraisal staff meets the statutory training requirements of section 670.

For fiscal year 1997-98, the assessor's training expenses were \$42,681. This figure included computer-related training, tuition refunds, and appraisal training in and out of the county. There is no set amount allotted for each appraiser for training purposes. Approvals for training are usually reviewed by the appraiser's supervisor and the division chief on a case by case basis.

The assessor encourages upward mobility and continued education, and many employees have been promoted from clerical positions to appraiser positions over the years.

## **STANDARDS AND QUALITY CONTROL**

A standards and quality control section ensures the consistency and quality of the appraisal product or taxpayer services through the development and maintenance of appraisal and operating standards. Other duties of a standards and quality control unit may include training, legal interpretations, or data processing coordination.

In the San Diego County Assessor's Office, the standards division is responsible for office automation and systems control along with various other functions of standards and quality control.

The division chiefs and area supervisors are responsible for overseeing valuation activities. Real property appraisers are located in the four branch offices. The real property appraisal crews are organized by geographic area and then by property use-type. Area supervisors review all real property appraisals with a value over \$600,000, in addition to automated on line reviews for all other appraisals.

Staff meetings are held on a biweekly basis for all supervisors, managers, and division chiefs, at which time pertinent appraisal or procedural issues are discussed and resolved. We found that these meetings ensure consistency and cooperation among the divisions and branch offices.

The assessor has implemented a very efficient time reporting system. Employees input their hours and the activity/task code into the computer daily. These time reports are automatically transmitted to the supervisors and approved on a weekly basis. This system enables management to closely monitor production and time spent on various activities and tasks.

Another effective way to ensure appraisal consistency is to develop and maintain current procedure manuals. Procedure manuals provide specific standards and uniform procedures to assist the assessor's staff in the preparation of appraisal reports, as well as other technical work products. Up-to-date manuals can help ensure that the work is consistent with approved policies and practices.

The standards division provides several resources on the Intranet with its own dedicated server. Land use codes, appraisal procedure manuals, the BOE's *Assessors' Handbook*, the Revenue and Taxation Code, and BOE Letters to Assessors (LTA's) are available online to all appraisers. Changes to the existing procedures must be submitted to and approved by the division chiefs.

This survey report includes recommendations that are related to inadequate procedures, procedure manuals, and related deficiencies. Overall, however, we found that the assessor does an excellent job of maintaining appraisal quality and adherence to standards.

## **COMPUTER INFORMATION SYSTEMS**

At the time of our review, both the secured and unsecured assessment rolls utilized a computer system developed about 25 years ago. In our previous survey, we noted that these systems generated assessment value errors under certain conditions, but due to lack of funding the assessor was unable to correct or improve the system. Some of the assessment problems with this old system included improper classification of manufactured homes as real property on the secured roll and lack of a direct interface between the assessor's and the auditor-controller's systems except by tapes.

In 1994, the county assessor, clerk, and recorder departments were merged. The assessor was able to consolidate functions and streamline processes to provide a smooth transition of information and functions among the three areas of responsibility, resulting in cost savings and improved services to the public. In addition, for fiscal years 1995-96, 1996-97, and 1997-98, funds obtained from the State-County Property Tax Administration Program (PTAP) provided over \$1 million each year for data processing equipment and for additional staff and training to develop, implement, and improve various automated systems within the assessor's office.

Additional hardware acquired with PTAP funds include an AS 400 system, personal computers for all staff, laptop computers for the auditor-appraisers and appraisers, 17-inch monitors, and conversion to a Windows 95 environment. Currently, all appraisal staff have LAN access and are operating customized appraisal software. Appraisers have on-line capabilities to access copies of deeds from July 1997 and forward, Preliminary Change of Ownership Reports (PCORs), recorded maps, two-year transfer listing, Homeowners' Exemptions, and vital statistics such as births, deaths, and probates.

## Imaging Project

In fiscal year 1997-98, an imaging project was implemented that converted all vital statistic records, fictitious business name applications, and property assessment records to digitized images. Documents to be imaged were reviewed for quality control and then digitized using a Kodak Archival Writer. A Kodak 2000e mass storage device, installed on a LAN system, stores these digitized images. It has 107 slots of memory with 14.8 gigabytes of memory storage (later expanded to 25 gigabytes). This storage is expected to fill up in three years. A second mass storage device, a Kodak 990D, was recently acquired and used for backup and new projects.

We identified some ongoing imaging projects that impact and assist the assessor's functions:

- **Assessor Parcel Maps:** Digitization of 25,000 assessor parcel maps has been completed, including monthly updates of 500 changes to maps. Public access to these maps was made available on the countywide LAN, accessible at all branch offices. An ongoing project is providing Internet access for all assessor parcel maps, to be implemented by summer of 1999.
- **Property Appraisal Records:** Over 6,000,000 pages of *Property Appraisal Records* (PAR) have been converted to images for field and branch office use. The system meets State Disaster Recovery Guidelines for those unlikely occasions of hardware failure, system interruptions, or other emergency situations. Imaging all PAR records at local branch sites continues as an ongoing project.
- **Recorded Documents:** All documents recorded since July 1, 1997, up to 24,000 pages a day, have been scanned and filmed. An ongoing project is the imaging of older records recorded prior to July 1, 1997. Recording and scanning at the San Marcos Branch office began in August 1998.
- **Vital Records:** Conversion of microfilmed vital records, such as birth and death certificates, to digitized images is ongoing, and these include an indexing component that links images to assessor/recorder/county clerk online databases.
- **Recorder's "Filed" Maps:** Procedures have been developed to scan and index newly-filed maps for viewing at all locations and on the Internet. Options to scan existing maps are being considered.
- **Homeowners' Exemptions:** Automation and imaging requirements for online access of Homeowners' Exemption claim forms have been identified. The conversion of over 600,000 forms includes optical character recognition for all returned documents.
- **Other Projects:** Proposed projects for scanning include forms for manufactured homes, sales verification, Propositions 60/90, certain exemptions, and selected decline-in-value properties.

This imaging project has enhanced access to documents and improved internal operations with local and remote electronic access from all assessor branch offices. It has reduced document retention space requirements by eliminating hard copies and has produced additional revenue through the sale of digitized information to title companies and other interested parties.

### **Secured Valuation System**

Improvements to the secured assessment roll procedures are in progress and are expected to be available for the year 2000 assessment roll. These improvements include improved tracking of properties in decline-in-value status and more property detail information such as property characteristics, permit information and accountability, base year preservation, and ownership tracking.

An automated permit system, known as the Building Permit Inspection Systems (BPIS), provides the assessor with permit information on a weekly basis from several of the cities in the county. While the majority of the permit issuing agencies are not currently on BPIS, new construction is tracked using a work-in-process file that accounts for all permits issued by all county and city agencies.

Permit type, issue date, and assessor's parcel number (APN) are manually entered into the computer file. This online automated function allows for management review and provides for better work accountability. For nonpermitted new construction, the assessor uses the multiple listing service to compare property characteristics. A manual survey to identify property characteristics is planned in the near future, starting with condominiums and subdivisions.

### **Unsecured Valuation System**

At the time of our review, the unsecured valuation system was in the process of being replaced with an outside vendor's software package, known as EZAccess. This system is currently in use in several other large county assessors' offices, namely Los Angeles, San Mateo, and San Francisco Counties.

### **Roll Corrections Project**

A new automated roll correction system has streamlined multiple labor-intensive manual processes. Whether responding to changes related to a property, a need to generate a property tax bill, or provide a tax refund, this online automated roll correction process allows for access and initiation by the assessor, treasurer/tax collector, auditor-controller, or clerk of the board of supervisors.

### **Assessment Appeals Project**

The assessor has implemented a new automated system for processing assessment appeals utilizing client server technology that allows appeals to be processed, scheduled, and tracked in an accelerated manner. The system enables the assessor's staff greater flexibility, control, and time to prepare a defense for all appeals cases.

The 1998 assessment appeal applications were scanned, indexed, stored, and available on the LAN to assist the clerk of the board, appeals hearing officers, and assessor's staff in monitoring and responding to the public.

## **Mapping**

The mapping section has scanned and stored, in digitized format, all of the assessor's maps. Using Auto CAD software, the mapping division scans architectural drawings and produces them in an 8 ½" x 11" size. All drawings become part of PAR. The mapping section also maintains the parcel layer of the county's *Regional Urban Information System*.

## **ASSESSMENT APPEALS**

The assessment appeals function is described by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions to guide county boards of supervisors in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted Property Tax Rules 301 through 326<sup>4</sup> regarding assessment appeals.

The assessment appeals board meets on Tuesdays, Wednesdays, and Thursdays beginning after September 15, the statutory appeal filing deadline. All assessment appeals board meetings are recorded. Representing the assessor at these board meetings is the assessor's advocate, a supervising appraiser, and a real property appraiser.

The Clerk of the Assessment Appeals Board is charged with accepting applications and scheduling and tracking appeals. There is a common database between the clerk and the assessor's office, which allows the assessor's staff to coordinate the cases according to location and ownership so that all appeals for a single appellant can be heard at one time. This system also tracks the age of the appeals so that none go beyond the two-year statutory limitation per section 1604(c).

We reviewed the assessment appeals function and coordination between the appeals board and the assessor's office. The two offices must have a close working relationship to ensure efficiency, particularly in the areas of case scheduling and document processing. At the same time, the statutory separation of the authority and responsibility of both agencies must be maintained.

The number of assessment appeals increased drastically during the mid-1990's due to an economic recession in California that, among other things, resulted in declining real estate values. Most of the increase in appeals filings is based on the claim that the market value of real property is lower than the factored base year value. A market value that is less than the factored base year value is referred to as a decline in value. For further discussion of the decline in value program, please refer to the *Declines in Value* section of this report.

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<sup>4</sup>All Property Tax Rule references are to Title 18 of the California Code of Regulations.



When a taxpayer files an appeal, the assessor's staff reviews available valuation data for the property under appeal. In some cases this results in agreement – at least in part – that a lower value is appropriate. Either the assessor's advocate or an appraiser will send out letters to the property owner showing the data and the method of valuation used by the county. These steps result in a large percentage of the appeals being withdrawn or stipulated, as shown below.

Assessment Year	Number of Appeals	Withdrawn	Stipulations
1993	29,624	4,161	21,003
1994	37,015	7,012	23,170
1995	34,038	7,177	22,508
1996	22,719	7,340	12,053
1997	25,147	5,095	6,687

We reviewed 21 appeal files and, in each case, found the assessor's responses were well documented, well prepared, thorough, and the reason for the value change, if any, supported. The county has an excellent system that works well even when processing large numbers of appeals. None has exceeded the two-year time limit.

## **LOW-VALUE PROPERTY EXEMPTION**

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceeds the funds collected, and establish the exemption level uniformly for different classes of property. The base year value or full value exempted may not exceed \$5,000, except that this limitation is increased to \$50,000 in the case of a possessory interest for a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility.

San Diego County has adopted an ordinance exempting low-value property. Pursuant to section 155.20, the board of supervisors has exempted all personal property, mining claims, and possessory interests with a full value of \$5,000 or less, and manufactured home accessories with a full value of \$5,000 or less, that are installed on manufactured homes subject to vehicle license fees and purchased prior to July 1, 1980.

## **DISASTER RELIEF**

In 1979, the San Diego County Board of Supervisors adopted ordinance 5104, which provides property tax relief when property is damaged by misfortune or calamity. This ordinance enables the assessor to apply the disaster relief provisions of section 170.

In our prior survey, we suggested that the assessor obtain periodic reports from local fire departments to discover property that has been damaged or destroyed and eligible for disaster relief under section 170. The assessor implemented this suggestion and now receives daily fire reports from 61 different fire departments within San Diego County. In addition, the assessor's staff discovers other disaster information from newspaper articles, taxpayers, and building permits.

The assessor's staff process approximately 300 disaster relief claims a year. The appraiser responsible for the geographic area in which the calamity occurred appraises the property and determines separately the full cash value of the land, improvements, and personalty immediately before and after the damage. The actual property tax relief is based on the percentage reductions in value due to the damage or destruction.

We reviewed several properties that qualified for disaster relief from fire damage. We found the appraisal staff is properly appraising properties that qualify for disaster relief and applying the appropriate disaster relief procedures.

## **ASSESSMENT ROLL CORRECTIONS**

Pursuant to sections 4831 and 51.5, roll corrections or changes can be made when an error or escaped assessment is discovered after the roll is closed. The roll correction may be made any time after the roll is delivered to the auditor but shall be made within four years, with a few exceptions, of the making of the assessment that is being corrected. Specific sections apply to escapes and overassessments.

The assessor's office processed 34,922 secured roll corrections for the 1997-98 roll year. Roll corrections usually originate with the appraisers who note the corrections on the *Property Appraisal Record* (PAR). The appraisers also attach a yellow form for roll corrections (also known as board actions) that cause an increase in roll value. This form includes pertinent information such as: current address, date of transaction, year(s) of roll correction(s), whether the change is on secured or unsecured roll, and the notification letter number.

Each division in the assessor's main office has an assessment clerk or property assessment specialist who receives these roll corrections and enters the information into the computerized roll correction system. The roll correction unit in the Kearny Mesa branch office handles all roll corrections for the other branch offices.

Once the corrections have been input into the computer, they are automatically forwarded to the county auditor for approval. A *Roll Correction Update and Release* report is updated weekly, which completes the roll correction process by accepting the on line changes that the users have

entered throughout the week. In addition, the system produces taxpayer letters entitled *Notice of Proposed Escape Assessment*. These letters are sent out only when there is an increase in value.

We reviewed 31 secured roll corrections. All procedures and statutory citations appeared to be correct. We found that roll correction processing was handled consistently and correctly.

Overall, the county's automated roll correction system is accurate, efficient, and well administered. The assessor should be commended for utilizing computer technology to streamline and expedite the roll correction process.

## **SUPPLEMENTAL ROLL ASSESSMENTS**

Section 75.10 requires that, whenever a change in ownership occurs or qualifying new construction is completed, the assessor shall appraise the property changing ownership or the new construction at its full cash value on the date the change in ownership occurs or the new construction is completed.

This new value is the base year value for the property that changed ownership or was newly constructed. Section 75.11 requires a supplemental assessment to be made for the difference between this new base year value and the taxable value on the current roll.

A new base year value for a change in ownership or the completion of new construction is reflected on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs between the lien date and the beginning of the fiscal year, a supplemental assessment is also levied for the coming fiscal year.

Every two weeks a release program is sent to the auditor to prepare values for the supplemental roll. If an appraiser changes a value, it gets supplementally billed two weeks later. The new value is enrolled on the regular annual roll at this time as well.

In San Diego County, supplemental assessments are computer generated once the appraisal staff has completed a value change due to change in ownership or new construction. These supplemental assessments are forwarded to the county auditor-controller's office where the auditor-controller cancels any resultant tax bill that is twenty dollars (\$20) or less, as allowed by section 75.41(d).

We reviewed a number of parcels subject to supplemental assessments and noted the prorations, tax bill amounts, time periods, and ownership tracking were done appropriately. The assessor has a good system for processing and assessing qualifying changes in ownership and newly constructed properties for supplemental assessments. We compliment the assessor and his staff for a supplemental program that is accurate and efficient.

# ASSESSMENT OF REAL PROPERTY

## THE APPRAISAL PROGRAM

Under California's present property tax system, county assessors' programs for assessing real property include the following elements:

- Revaluation of properties that have changed ownership
- Valuation of new construction
- Annual revaluation of certain properties subject to special assessment procedures such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land, and
- Annual review of properties having declining value assessments authorized by section 2(b) of article XIII A of the California Constitution.

### CHANGE IN OWNERSHIP

In June of 1978, the voters in the State of California adopted Proposition 13, which added article XIII A to the California Constitution. This initiative made sweeping procedural and substantive changes to the ad valorem system of taxation of real property in the State of California.

Article XIII A of the California Constitution requires that taxable values for real property shall be "frozen" at their 1975 full cash value and then annually factored for inflation, but limited to no more than 2 percent per year. In addition, real property can only be reappraised when there is a change in ownership or new construction.

Change in ownership is defined in section 60 as " . . . a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest."

### Change in Ownership Statements

Our prior survey recommended that the assessor revise his technique for applying a penalty for failure to file a Change in Ownership Statement (COS). At that time, the assessor was waiting as long as a year to apply the penalty and then abating the penalty without any authority to do so. Per section 483, we recommended the assessor apply the penalty for nonfilers of the statement timely and not abate the penalty unless authorized by the board of supervisors.

We found that the assessor has now changed his procedures. A computerized program for tracking nonfilers was developed whereby a monthly report called the *Delinquent Ownership Change Respondents* report is forwarded to the auditor's office for application of the penalty

once the required time has elapsed. We checked 16 parcels on this report and compared these parcels with the tax collector's microfiche for verification.

We found on the *Delinquent Ownership Change Respondents* report the date the penalty was applied and compared it to the microfiche where the penalty amount was specified, applied, and cited. Every Monday a report is generated called *New Base Year Values Required*, which is forwarded to the appraisal staff for a prompt reappraisal and calculation of any nonfiler penalties.

The assessor has also modified his penalty abatement procedure. The penalties now remain on the tax bill unless the taxpayer appeals to the board of supervisors to formally request an abatement of the nonfiling penalty.

As a result of the assessor's actions, the penalty procedures are now timely and are in conformance with the Revenue and Taxation Code.

### **Death of Property Owner Reappraisals**

In our last survey, we noted that the assessor's staff was not actively pursuing information regarding change in ownership due to the death of the property owner. We suggested the assessor ensure the timely discovery of the deaths of property owners for timely reappraisal and assessment as of the date of death. The lack of a timely discovery and valuation of such properties can result in delayed collection of taxes and excessive administrative burdens for the property tax system in the form of escape assessments.

In October of 1997, the assessor developed a program to crosscheck the Social Security Numbers on the recorder's *Death Index* and the assessor's Social Security file maintained for Homeowners' Exemptions. If the Social Security number of the decedent and the social security number for the Homeowners' Exemption match, the parcel number with the name, date of death, mailing address, and other information are distributed to the title section of the assessor's office for processing. The assessor's staff searches property titles to see whether there are other properties owned by the decedent, then a modified COS is sent to the given address in care of the executor.

We commend the assessor for implementing an efficient, effective method of improving the discovery and timely enrollment of reappraisals resulting from the death of property owners.

### **Processing Recorded Deeds**

The table on the next page shows a six-year history of documents processed, deeds posted, and reappraisable transfers processed by the assessor's staff.

<i>Fiscal Year</i>	<i>Documents Processed</i>	<i>Deeds Posted</i>	<i>Reappraisable Transfers</i>
1992-93	1,201,300	126,020	61,737
1993-94	1,408,942	123,647	65,983
1994-95	1,317,988	128,812	66,326
1995-96	1,544,019	207,314	59,854
1996-97	1,261,605	116,708	58,398
1997-98	1,505,212	166,473	78,047

The merging of the recorder and assessor functions has resulted in significant improvements in the transmittal of deeds and cooperation between the departments. In our previous survey, we noted their outstanding transfer document processing procedures. Since then, the implementation of an imaging/scanning system has significantly improved the handling of recorded documents. Each scanned image is assigned a recording number, a bar code number, and an internal code to identify its purpose (e.g. “-oc” = ownership change).

For the past 30 years, a private title company provided the assessor with reproduced recorded documents on microfiche in exchange for a duplicate set of those documents for their own use. But as of July 1, 1997, the county began the in-house scanning of recorded documents.

The old system, which used microfiche as the primary means of copying documents, took between three to four weeks to produce an accessible document. The scanned images are available for use two to three days from the time of document recording. This turn-around time is important because the average number of pages per recorded document jumped from 3.2 pages to over five pages as of 1998. The switch to scanning the documents in-house has saved time in handling recorded documents and generated a new source of revenue. The assessor’s staff scans an average of about 2.5 million images a year. These images are sold to private title companies, thus generating revenue that offsets the cost of scanning.

The assessor’s deed processing system is innovative, timely, highly productive, and now, revenue generating. We commend the assessor for his foresight and implementation of an efficient new technology.

### **Partial Interest Transfers**

When there are multiple transfers of fractional ownership interests in the same real property, different base years and base year values result for each fractional interest. It therefore becomes important to know which interest is being transferred so that the appropriate blended taxable value and supplemental assessment can be determined.

The assessor's *title department* computer screens, known as *time slices*, accurately track ownership names and fractional interests. We reviewed eight partial interest transfers to check the tracking and accuracy of these reappraisals and noted no deficiencies.

### **Legal Entity Ownership Program**

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of the change in control. Discovery of real property transferred by a change in control can be difficult because ordinarily there is no recorded notice of changes in control of a legal entity. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records.

The BOE's Legal Entity Ownership Program (LEOP) learns of changes in control through responses to questions appearing on corporate and partnership income tax returns filed with the State Franchise Tax Board. The LEOP staff passes information related to these transfers to county assessor's offices by sending to each assessor a listing with the corresponding property schedules of legal entities that have reported a change in control. The listing includes the names of acquiring entities, the date stocks or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates.

Accuracy of the data reported to LEOP is not guaranteed. Assessors are advised to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly appraised.

We reviewed 50 properties on the assessor's LEOP list and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor's legal entities staff is doing a good job processing LEOP notices and identifying changes in control.

### **Direct Enrollment**

Direct enrollment is a process by which a property's sale price is enrolled without being field reviewed. San Diego's direct enrollment program utilizes a multiple regression program and existing confirmed sales to calculate an estimated market value. Based on the subject's property characteristics, the sale price is compared to the estimated market value. If the sale price and estimated market value meet specified guidelines, the sale price is enrolled.

There are a wide variety of factors that can filter a sale out of the direct enrollment program, such as date of death, fractional interests, refuse to confirm, corporate transfer, less than 90 percent of current assessed value, etc. There are approximately 30 filter criteria a sale must pass to become directly enrolled.

The allocation of value to land and improvements is based on the allocation at the time of purchase. According to the assessor's staff, in the future the allocation will be based on a land residual method. The depreciated improvement cost, derived from BOE's cost manuals, will be subtracted from the sale price to leave a residual value to the land.

The assessor's direct enrollment program includes single family residences, duplexes, condominiums, and timeshares. Forty to 50 percent of these reappraisable transfers are directly enrolled. For the 1998 fiscal year, 24,117 parcels were direct enrollments.

### **Public Transfer List**

Section 408.1 requires all assessors in counties with populations of 50,000 or more people, as determined by the 1970 federal decennial census, to maintain a two-year listing of transfers of any interest in property, other than undivided interests, within the county. The list must be updated quarterly.

The transfer list must contain the following: transferor's and transferee's names, assessor's parcel number, date of transfer, the address of the sold property, the date of recording, the recording reference numbers, and consideration paid if known. The listing may include, at the assessor's discretion, any other information that may be helpful to the taxpayer.

A transfer list on microfiche, under the title of *Sales Listing for Appeals Applicants*, is available in the public area of the assessor's main office. The list is maintained according to section 408.1 and contains all pertinent information as required. We found the assessor's staff very helpful and well informed about the transfer listing.

### **Exclusions from Change in Ownership**

Section 63.1 excludes from change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first one million dollars of other real property between parents and children when a claim is timely filed. Such claims must be filed within three years of the purchase or transfer or prior to the transfer of the real property to a third party, whichever is earlier, or within six months after the date of mailing of a notice of supplemental or escape assessment issued as a result of the purchase.

Section 69.5(a)(1) allows qualified homeowners 55 years of age or older or severely and permanently disabled residing in a house eligible for a Homeowners' Exemption to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county on or after November 6, 1986, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling.

Section 69.5(a)(2) provides a one-time property tax relief for qualified homeowners by allowing them to transfer their current base year value to a newly acquired residence if they sell their existing home and buy another of equal or lesser value in another county that has passed an ordinance authorizing such transfers. San Diego County has adopted such an ordinance in section 86 of the San Diego County Administrative Code, operative as of January 1, 1990.

In San Diego County, the parent/child exclusion is by far the most commonly used of the three. For the assessment year 1997/98, there were 4,503 claims filed. We found that the assessor's staff is correctly determining proper eligibility, verifying, tracking, and processing exclusion claims resulting from parent/child transfers.



Section 69.5 exclusions are not as common as parent/child exclusions, and therefore not as time consuming for the staff. For 1998 there were a total of 849 claims for both types of section 69.5 base year value transfers. Of these, 526 were intracounty and 323 were intercounty. We checked several of these claims for eligibility, proper signatures, etc. and we found no errors in the staff's handling of these claims.

In conclusion, we found that the assessor's staff was well trained, courteous, professional, and doing a commendable job in the area of change in ownership.

## **NEW CONSTRUCTION**

Section 71 and Property Tax Rule 463 require that qualifying newly constructed real property be valued as of the date of completion or, if under construction, as of the lien date. The primary source for discovering new construction is building permits issued by various agencies. The appraisal staff worked 22,794 building permits during the 1997-1998 fiscal year. The assessor uses a self-reporting mailout system for new construction permits with a value of less than \$60,000. Additionally, staff appraisers discover construction activity while they are working in their assigned geographic areas. Occasionally, new construction information is supplied on the business property statement.

### **Building Permit Processing**

There are 19 agencies in San Diego County that issue building permits. The County and the City of San Diego, which account for 70 percent of the permits in the county, have automated permit systems (BPIS Building Permit Inspection Systems) that allow the assessor access to the building permit databases. The other cities do not have automated systems. The assessor's headquarters staff creates a database of issued permits, and selected ones are copied. The permits are processed for value and type, and then given to the appraisers for valuation.

***Recommendation 1: Review or spot check building permits from non-automated permit-issuing agencies.***

Our prior survey recommended the assessor develop a system to account for building permits from all issuing agencies. Section 72 requires that all permit-issuing agencies transmit a copy of all permits to the assessor as soon as possible. The assessor's staff believes they are receiving all permits, but there is no mechanism in place to insure that all are received from those cities without an automated permit system.

These non-automated permit issuing agencies send only those permits that fit the criteria established by the assessor's staff. There is no review or spot check of permits not forwarded to the assessor's office to verify that the selection criteria is consistently applied and all permits are accounted for.

The assessor would like these cities to automate and use the BPIS, but this has not occurred. While use of the BPIS may be the best long-term solution, an alternative interim method should be developed and implemented. One example could be a sequential listing from each agency of all permits so that a sampling of permits not received can be regularly reviewed.

## DECLINES IN VALUE

Section 51 requires the assessor to value taxable real property at the lesser of its base year value, adjusted annually for inflation, or the current market value, as defined in section 110.

Whenever a property's current market value declines, for any reason, below its factored base year value, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year level; then the factored base year value resumes as the taxable value. Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines.

The assessor has developed a computer program that tracks parcels that have sold after January 1, 1987 and have declined in value. This program utilizes a multiple regression analysis and a comparative sales approach to list suggested changes in value to properties where this kind of system can be applied.

The number of parcels assessed as declines in value increased from 4,862 in 1990-91 to 208,010 in 1997-98, with a total cumulative reduction in value during this period of \$15,836,306,088. We reviewed 19 residential parcel records and found these properties were being properly reviewed each year. The values for these parcels appeared reasonable and were based on either the regression analysis program or comparative sales approach. It appears that the county is doing an excellent job of managing the large number of residential parcels that have declined in value over the last eight years.

Numerous commercial and industrial properties in San Diego County have declined in value over the last decade. The assessor's staff made a significant effort to review these properties, and now many have been restored to their factored base year value. Others have had their assessed value for 1998 raised above the 1997 taxable value but are still assessed for less than their factored base year value.

We found the appraisal records for those properties with restored values to be well documented and the assessed values reasonable. However, in other cases we noted that a decline in value assessment had been carried over from the previous year(s). Though some appraisal records contained the notation *Reviewed for 98, no value change*, there was little or no documentation supporting the value conclusion.

Without a thorough market analysis of the properties in question, it is difficult to argue with the county appraiser's judgment. In fact, our field reviews of properties with assessments that had been carried over indicated obvious reasons for declining or stagnating values. Some were old or declining retail complexes, some had unique or misplaced improvements, and others had location problems. Few of the records however, reflected any documentation to that effect.

When reviewing decline in value assessments, we suggest the appraisers document value conclusions. At a minimum, the specific reasons for the change, or no change in value, should be noted.

## **VALUATION OF COMMERCIAL PROPERTIES**

Ten commercial appraisers are responsible for the assessment of the largest and most complex real properties in the county. These properties include regional shopping centers, hotels, high-rise office buildings, and large business/industrial parks. In most cases, an appraiser is assigned a specific geographic area and is responsible for the assessment of all large commercial/industrial properties in that designated area. The exception is the assessment of large hotels. One appraiser is assigned the valuation of all large hotels in the county.

We found that appraisers assigned to the major property division are experienced and well versed in current valuation issues and methods. We noted that the appraisal staff has access to numerous market-data resources. These resources include monthly subscriptions to commercial/industrial sale publications and several computer on-line sale information services. The appraisers also have computer access to transfer deeds and Preliminary Change in Ownership (PCOR) statements. In addition, a computerized cost-estimating program for new and existing improvements was recently installed.

The availability of multiple cost and market resources ensures that the appraisal staff has the necessary information and tools to support an appropriate value conclusion. The assessor is to be commended for providing his appraisal staff with a broad range of valuation resources.

We found that the assessor does not have written appraisal procedures or guidelines for the valuation of major properties. Each appraiser individually determines the appropriate valuation approach utilizing various formats and forms. We selected several major property appraisals for review. At times we found a lack of consistency or uniformity in the valuation and documentation of these major properties.

We suggest that the assessor establish guidelines prescribing standard appraisal valuation procedures, and the minimum acceptable level of documentation for the valuation of major properties. Implementation of these standard procedures will help ensure uniformity and consistency.

## **SPECIAL PROPERTY TYPES AND PROCEDURES**

### **CALIFORNIA LAND CONSERVATION ACT PROPERTIES**

An agricultural preserve is established by contract between a landowner and the county or city pursuant to the California Land Conservation Act (CLCA) of 1965. Lands under contract are assessed at the lowest of (1) fair market value, (2) agricultural income-producing ability, including the value of any compatible uses, or (3) factored base year value, as defined in section 110.1. For the 1997-98 lien date, San Diego County had approximately 140,000 acres encumbered by the CLCA contracts covering 1,310 parcels.

The tracking and valuation of CLCA properties is computerized. Current values and calculations are easily accessed. The program has input fields for the calculation of land values and nonrenewal values. There are also input fields for multiple types of land and improvements on a particular property.

Our prior survey included six recommendations for the CLCA program. We found that four of our six recommendations have been implemented. Procedures are currently in place to:

- Calculate supplemental assessments on all newly constructed non-living improvements
- Properly calculate the living improvement component of CLCA properties that are in nonrenewal status
- Value tree and vine income streams based on an inclining-declining premise
- Discontinue the practice of discounting base year values.

We commend the assessor for making these recommended changes, but one significant area still needs improvement. We have made this recommendation in our last two surveys and we repeat it again.

***Recommendation 2: Update income information periodically.***

Those elements that are the basis of estimating income attributable to an agricultural property, i.e., rents, expenses, price, and production information, should be based on current information. Surveys to collect this data have not been made since prior to 1988. Even 10 years ago, the information was out-of-date.

While there has been some informal updating of this information by way of telephone contacts with several growers and the County Agricultural Commissioner's office, etc., there have been no formal questionnaires sent to agricultural property owners for some time. Failure to use current data results in income estimates that are not current or accurate, and ultimately the restricted value will be unreliable.

We recommend the assessor periodically request updated information from agricultural property owners and utilize these data in the CLCA appraisal process.

## **TAXABLE GOVERNMENT-OWNED PROPERTIES**

Article XIII, section 11 of the California Constitution exempts from taxation property owned by a local government, except lands and the improvements thereon that are located outside its boundaries and that were subject to taxation at the time of acquisition. Taxable government-owned property is frequently referred to as section 11 property because it must be assessed in accordance with the above-mentioned section 11.

The taxable value of the land must be the lowest of (1) the 1967 assessed value adjusted by a factor supplied annually by the BOE (“Phillips Factor”), (2) the current fair market, or (3) the factored base year value.

Improvements subject to assessment under section 11 that were taxable when acquired by the government agency, or their replacements, must be assessed at the lowest of (1) current market value, (2) full cash value as defined by article XIII A of the California Constitution, or (3) the highest value ever used for taxation for the replaced improvements. Improvements newly constructed subsequent to acquisition are exempt.

In the San Diego County Assessor’s Office, one appraiser is responsible for the valuation of all taxable government-owned property within the county. The appraiser maintains a list of approximately 500 section 11 properties that are owned by 29 government agencies.

The assessor’s staff, in conjunction with the recorder’s staff, has developed a very effective discovery process for section 11 properties. The recorder’s staff sends a daily list of all recorded documents to the assessor’s Routing and Control section. The deeds are reviewed and those that list the grantee or grantor as a government agency are forwarded to the Mapping Division’s Tax Rate Area (TRA) section. The TRA section, using an advanced computer-generated TRA tracking system, inputs the deed’s parcel number, and the TRA is automatically identified. At any time the TRA number can be entered into the computer and all of the taxing government agencies located within that TRA boundary are listed. If the TRA automated program indicates that the parcel is located outside the governmental agency boundaries, the mapping division labels the deed with the words *taxable section 11*. The deed is then routed to the real property division to be assessed as a section 11 property.

The deed labeling *taxable section 11* was a suggestion from our prior survey. At that time, we noted that only the word *taxable* was placed on the deeds, resulting in some section 11 parcels being appraised as privately owned properties. The addition of *section 11* on the deeds has assisted the appraisal staff in identifying all taxable section 11 properties.

As part of our current review, we selected 50 parcels from the assessor’s list of non-taxable government-owned properties and compared the TRA code listed for each against the computer-generated TRA index tracking system. We found only one parcel that was not correctly identified as a section 11 property. We also discovered two vacant parcels whose assessments included improvements. When these discrepancies were brought to the staff’s attention, they concurred that these parcels were not improved and removed the improvement values from the appraisal records and the assessment roll. Our further investigation indicated this was due to a clerical processing error and does not reflect a program deficiency.

Our prior survey also suggested that the assessor’s staff determine whether any properties that listed the ownership as the United States of America or the State of California were being leased to private individuals, companies, or other entities such as outdoor recreational clubs. At that time, we noted the possibility that some taxable possessory interests (PI’s) could be escaping assessment because the specific federal and state agency managing these properties had not been

identified. We suggested that the staff obtain the names of the specific agencies and determine if taxable PI's exist.

Currently, we have found that staff has been successful in obtaining the names of specific government agencies. Those properties meeting the criteria for taxable possessory interests have been identified and assessed.

## **POSSESSORY INTERESTS**

A taxable possessory interest (PI) is established when a private right to exclusive use and possession is created in government-owned real property. The elements necessary for a PI assessment program are the ability to identify government agencies granting the PI's, the holders of the PI's, and the terms of possession and economic rent for each PI.

The assessor, under section 107, is responsible for identifying the existence of possessory interests and valuing those PI's upon their creation, change in ownership, renewal, or renegotiation of the lease, and upon the construction of new improvements on the property.

### **Discovery**

The possessory interest appraisal program is handled by three appraisers who are responsible for the assessment and enrollment of approximately 5,000 PI's within San Diego County. On each lien date, the assessor sends a list of the prior year's possessory interests to the 139 government agencies reporting PI's within the county. The agencies are requested to review the list and advise the assessor's office if there have been any additions, terminations, changes, or amendments that occurred during the past year.

Since our last survey in 1995, the number of PI's in San Diego County has increased from over 4,000 to approximately 5,000. New PI's are also discovered by reviewing recorded leases and contracts, and field observations by staff appraisers.

For a new possessory interest, the agency is asked to send a copy of the lease or contract that outlines the specifics of the interest held, the term, a description of the leased property, and the lease amount. If there are buildings or other improvements on the site, the agency is requested to indicate if the lessee or the agency owns the improvements.

Most of the government agencies in San Diego County are very cooperative and responsive. Those agencies that do not respond are sent a second request and, if necessary, are contacted by telephone. The appraisal staff did inform us that they are not getting cooperation from the United States Forest Service (USFS). Staff indicated the USFS would not provide the current and necessary information to update their PI permittee files.

On December 22, 1997, the assessor's staff sent a letter to the USFS requesting an updated list of the names and addresses of PI's located on USFS lands. The USFS refused to provide this information.

The USFS determined that the names and addresses of private individuals who hold grazing permits and special recreational home use permits on USFS lands constitutes confidential information and is not subject to disclosure to local government under 5 U.S.C. Sec. 552, and refused to provide assessors with such information. Since 1996, the Forest Service has refused to provide information regarding possessory interests granted to individuals, claiming that such information is confidential and exempt from public disclosure under both the Freedom of Information Act and the Privacy Act.

The Kern County Assessor subsequently filed applications for injunctive relief against the USFS. On January 13, 1998, the case was decided in appellate court in favor of the Kern County Assessor. Kern County is currently receiving this information from the USFS.

***Recommendation 3: Request that the county counsel make a demand for possessory interest lease information from the United States Forest Service.***

In the Kern County action, the USFS indicated to the Kern County counsel that they would abide by the decision on behalf of all California assessors. We recommend that the assessor request that the county counsel issue a demand in writing for lease information, and if the demand is not satisfied, to file an administrative appeal.

### **Fairground PI's**

In our prior survey, while acknowledging a good PI program, several areas were in need of improvement. We had found that the assessor was not assessing fairground PI's that had a value of less than \$1,000, citing the county's low-value ordinance. We disagreed with assessor's interpretation and application of this ordinance. Since then, the assessor was instrumental in the adoption of a revised low-value ordinance that includes possessory interests.

Section 155.20 allows a county board of supervisors to enact a resolution that exempts from property tax all real property, including possessory interests, with a total base year value or full value of less than \$5,000. In response to our prior recommendation, on December 5, 1995, the San Diego County Board of Supervisor enacted Ordinance No. 8615. This ordinance exempted possessory interests with a full value of \$5,000 or less from property taxation. We commend the assessor for his role in the enactment of this ordinance.

Additionally, on January 1, 1998, Senate Bill 33 amended section 155.20 to allow county boards of supervisors to exempt possessory interests in county fairgrounds if the value of the interest is less than \$50,000. The assessor's staff is aware of this recent amendment to section 155.20 and indicated they will request that the board of supervisors amend the current ordinance to increase the county fairground exemptions from \$5,000 to \$50,000.

Previously, staff was including concession fees paid by car rental agencies in the valuation of car rental PI's located at the airport. This inclusion of concession fees was contrary to a March 20, 1989 court decision and a subsequent ruling of the Court of Appeal, Fourth Appellate District. The courts ruled in favor of two car rental agencies holding that the agencies had possessory interests only in the counter space locations of the airport terminal buildings. The assessor has

complied with this ruling and no longer includes concession fees in the valuation of car rental agencies.

### **Direct Income Method**

Our prior survey also recommended, whenever applicable, the use the direct income method in the valuation of possessory interests. This method of valuation directly capitalizes net income into an indicator of market value. It is the preferred approach when the remaining economic life of wasting assets does not exceed the estimated term of possession or when a constant income stream is projected. The assessor's staff is now using the direct income method for fairground PI's.

### **HISTORICAL PROPERTY**

Section 439.2 provides a specific procedure for the assessment of historical property. Its purpose is to encourage the renovation and maintenance of historical properties throughout California by providing a property tax incentive for owners of historical properties. It is similar in this respect to the Williamson Act, which encourages the preservation of agricultural land in return for a property tax incentive.

Government Code section 50280 provides that an owner of a qualified historical property that is privately owned and not exempt from property taxation may enter into a contract with local governments. Government Code section 50280.1 requires that in order for a property to be eligible for a such a contract, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of their factored base year value, current market value, or restricted value. Furthermore, when valuing enforceably restricted historical properties, section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using the income capitalization method. In this method, a fair or market rent less ordinary and necessary expenses is capitalized by a rate that is not derived from the market but is a sum of:

- An interest component that is determined by the BOE
- A risk component
- A component for property taxes, and
- A component for amortization of the improvements.

San Diego County has 119 properties that are classified as historical properties, each having a contract for a ten-year period. Of these, 61 are owner-occupied. Each of the historical property hard copy files includes a building record, copy of the contract, and other information necessary to value the property. The assessor uses a 4 percent risk component for owner-occupied properties and a 2 percent risk component for non owner-occupied properties. The appraisal staff



uses economic rent based on rent studies, and they use the interest component supplied by the BOE as required by section 439.2.

The assessor has an excellent program for valuing historical properties and should be complimented for his staff's fine work.

## **MANUFACTURED HOMES**

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in sections 18007 and 18008 of the Health and Safety Code, and statutes prescribing the valuation and assessment of manufactured homes are in sections 5800 through 5842 of the Revenue and Taxation Code.

There are over 13,000 manufactured homes in San Diego County. All of the processing and valuing of manufactured homes are done out of the downtown San Diego office. The manufactured home assessment staff includes a property assessment specialist, senior assessment clerk, and a clerk typist.

The assessor's primary method of discovering manufactured homes is through the State Department of Housing and Community Development's (HCD) listing of transfers, voluntary conversions, and new registrations. Some are discovered by taxpayer notification of bank repossessions or transfers.

However, sometimes HCD gets behind in providing the assessor with its listing. At one point, the assessor did not receive the HCD listing for four months. This creates a backlog in the processing and valuation of taxable manufactured homes. Currently, the assessor is making an effort to alleviate this problem by working with HCD to obtain this information electronically.

***Recommendation 4: Classify and enroll manufactured homes as personal property.***

The Manufactured Home Property Tax Law specifically provides that manufactured homes are classified as personal property. Improper classification of manufactured homes can affect the amount of taxes levied because of special assessments. Special assessments are levied upon real property in a district for the purpose of paying for improvements. The amount of the levy is based upon the benefits accruing to the property as a result of the improvements. Special assessments are not imposed on items of personal property.

In our prior survey, we noted that the assessor classifies and enrolls manufactured homes as real property and we recommended that this be changed. We found that manufactured homes are still being enrolled as real property on the secured roll. The assessor is aware that they are not in compliance with section 5801. However, the delay in making this conversion is due to the changes necessary to electronically relay the HCD listing to the assessor's office.

The assessor believes that it would be more efficient and productive to correct the enrollment of manufactured homes simultaneously with the establishment of an electronic relay with HCD.

Furthermore, he has implemented a special tax-rate area code so that special assessments are not applied to manufactured homes.

We recommend that the assessor continue to allocate resources towards updating their computer system to allow for the proper classification of manufactured homes as personal property on the secured assessment roll. This action will bring the assessor into compliance with the provisions of section 5801(b).

***Recommendation 5: Document on the appraisal record the source and value obtained from recognized manufactured home value guides.***

Sale prices of manufactured homes located on rented or leased land frequently include increments of value attributable to factors other than the manufactured home. Examples include site values, associated accessories, buildings, structures, or items of personal property. Site value is attributable primarily to location, such as the desirability of the park, space within the park, space size, etc. It is improper to include site value in the assessed value of a manufactured home that is located on rented or leased land.

Section 5803(b) provides that the assessor shall take into consideration manufactured home sales prices listed in recognized value guides. Letter to Assessors (LTA) no. 93/35 recommends documentation on the appraisal record of the value guide relied upon and the value indicated by the guide.

The assessor subscribes to the *Kelly Blue Book Official Manufactured Housing Guide* to classify and value manufactured homes. But, after reviewing selected manufactured home records, we found that the appraised values many times did not match those from the *Kelly Blue Book*, but, were in fact a product of the assessor's in-house cost sheet. The in-house cost sheet is based on adjusted 1993 *Kelly Blue Book* values that include built-in costs for carports, skirting, and awnings. The use of the in-house cost sheet was not readily apparent because the value source was not documented on the appraisal record.

Though the appraisal staff documents adjustments for site influence on the property appraisal record, they do not document the value guide relied upon and the value indicated by the guide. We recommend that appraisal records be documented with the value guide consulted, date, and indicated value as evidence that a recognized value guide was considered.

***Recommendation 6: Mail a Change in Ownership Statement to taxpayers who do not return the Mobilehome Owner's Declaration.***

When the assessor receives notification from HCD, the staff mails a *Mobilehome Owner's Declaration* to the taxpayer. An accompanying cover letter requests that the declaration be completed and returned to the assessor's office within 30 days. If the declaration is not returned within 30 days, the taxpayer is sent a second request with another 30-day limitation. If no response is made, the file is then forwarded to the appraiser to work with the information available to them.

Although the assessor's *Mobilehome Owner's Declaration* report is a concise and valuable information gathering tool, section 480(a) requires the transferee of any manufactured home to file a signed change in ownership statement whenever there is a change in ownership. Subdivision (c) of the same section provides that the change in ownership statement shall include information as prescribed by the BOE, including an "Important Notice" that relates to filing time and penalties for not filing the change in ownership statement.

In our prior survey, we suggested that the assessor request that the transferee file an official change in ownership statement if the *Mobilehome Owner's Declaration* is not returned. Our suggestion has not been implemented.

The assessor should continue to use the *Mobilehome Owner's Declaration* report but modify it by prefacing it with a notice that the information relative to the manufactured home transaction is required under the authority of section 480. If the transferee fails to return the requested information, the assessor's office should demand that the transferee file an official, BOE-prescribed change in ownership statement which would result in a penalty if not filed timely pursuant to section 480.

Another area of concern mentioned in our prior report was the assessment of manufactured home accessories. Because manufactured home accessories usually have low values and are time consuming to discover and appraise, we recommended that the assessor work with the board of supervisors to adopt a low-value property exemption that would apply to the appropriate manufactured home accessories.

The county board of supervisors has since adopted an ordinance that exempts manufactured home accessories with a base year or full value of \$5,000 or less. This exemption applies only to those accessories that are associated with manufactured homes licensed by the Department of Motor Vehicles. It is not used to exempt accessories on taxable manufactured homes because the taxable manufactured home and its accessories form one economic unit.

## **TIMESHARES**

There are 19 different timeshare projects in San Diego County that comprise a total of 54,883 parcels and 55,994 units for the 1998-99 assessment year. The total assessed value of the timeshares for 1998 was \$300,462,548.

Timeshare values vary according to the location and size of the living unit, and time of year purchased. In San Diego, the holidays and locations near the beach or Del Mar Racetrack sell for higher prices as compared to other times and locations.

The assessor's staff conducted a study of initial timeshare sales from developers. Based on that study, it was determined that 35 percent of the purchase price can be attributed to nontaxable items such as inventories and other personal property. Consequently, only 65 percent of sale price is assessed.

There are no hardcopy building records for individual timeshare interests, but each timeshare assessment can be reviewed on-line by parcel number.

In our prior survey, published in 1995, we recommended the assessor review timeshares for possible declines in value. All timeshares were reviewed two years ago for a decline in value, and we found that the appraisal staff continues to closely review them for declines in value.

## **MINERAL PROPERTIES**

San Diego County has approximately 40 sand and gravel properties within its borders. The county's mineral properties are assigned to a real property appraiser who generally values the mineral rights by use of the royalty method. The appraisal documentation is very good, making it easy to follow what the appraiser has done.

### ***Recommendation 7: Appraise mineral properties as a unit.***

The appraiser values the mineral rights separately from the plant and equipment associated with the mineral property. The mineral rights are valued using the royalty method. The current market value of the mineral rights is then compared to the base year value to determine the value to place on the roll, instead of including plant and equipment in the appraisal unit.

This practice is contrary to Property Tax Rule 469(e)(1)(C), which provides that:

“Declines in the value of the mineral property shall be recognized when the market value of the appraisal unit, (i.e., land, improvements including fixtures **and reserves**), is **less than the current adjusted base-year value of the same unit.**”

Failure to appraise the property as a unit could result in enrolling the current market value for the machinery and equipment and an adjusted base year value for the mineral rights, or vice versa. The assessor can resolve this problem by coordinating the assessments on mineral properties performed by the business and the real property division staff.

We recommend the assessor appraise mineral properties as a unit, including land, improvements including fixtures, and reserves.

The assessor currently does not request and keep copies of lease agreements on file. A significant amount of information is available in this types of document that would aid the appraisal and valuation process. Information concerning terms of the lease, minimum royalty payments, and escalation clauses all have bearing on the valuation of mineral properties.

We suggest that the appraisal staff obtain copies of lease agreements for mineral properties and keep the copies on file for documenting the appraisal process.

## **WATER COMPANY PROPERTY**

There are three private water companies in San Diego regulated by the California Public Utilities Commission (CPUC). The previous survey found that the assessor had received the CPUC annual report for only one company. Currently they are receiving these reports for all companies, but not every year. The assessor appraises the companies by using the Historical Cost Less

Depreciation (HCLD) approach, which is an acceptable valuation approach for rate-regulated utilities. The income approach is not utilized.

***Recommendation 8: Utilize the income approach to value for the appraisal of regulated private water companies.***

The current market value of a closely regulated water company is likely to approximate HCLD, or the “rate base” on which the company is entitled to earn a return under CPUC rules. Depending on the degree of regulation and the market’s anticipation of future regulation and earning potential, the income approach indicator may also approximate HCLD.

The primary effect of regulation is that potential earnings and consequently market value do not change from year to year in the same manner as for unregulated properties. A company whose plant investments are static could actually lose market value as book depreciation reduces the return allowed by the CPUC; this is the premise of the HCLD approach.

Although rate regulation has a strong influence on earnings, rate regulation does not create market value. Private water companies are income-producing properties, and the market values them according to the present worth of anticipated future earnings. For a variety of reasons, the market may place either a higher or lower value on a water company property than the amount indicated by HCLD. Accordingly, we recommend the income approach be utilized when appraising regulated private water companies.

***Recommendation 9: Identify and assess all taxable improvements and water rights on water company property.***

In our previous survey, we recommended that the assessor obtain a listing of all wells that are annually inspected by the county’s Environmental Health Services Department. We further recommended that the assessment records of listed properties be reviewed for purposes of determining whether wells, pumps, water rights, etc. had been assessed.

The assessor has since obtained the above mentioned listing and researched the various water providers. The effort resulted in no new assessments. However, a field review of 12 parcels owned by water companies revealed significant improvements on four of them, including pumps, fences, concrete reservoirs, above-ground tanks, small buildings, and pipelines. The assessment roll indicated only land values. The appraisal records were not always clear as to the type of water company and the method of valuation. In addition, water rights were not consistently valued.

We recommend the assessor classify all water companies in the county, and based on this classification, identify and assess improvements and water rights according to statutory and BOE guidelines.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The business property division of the San Diego County Assessor's Office is responsible for annually valuing more than 46,000 business accounts, 3,500 aircraft, and 13,000 pleasure boats and documented vessels. Seventeen auditor-appraisers, 14 appraisers who value the personal property, and five assessment support staff carry out the functions of business and personal property assessment.

### AUDIT PROGRAM

#### Mandatory Audit Program

Section 469 provides that the assessor shall audit a taxpayer's profession, trade, or business once every four years whenever the locally assessable trade fixtures and business tangible personal property have a full value of three hundred thousand dollars (\$300,000) or more. Property Tax Rule 192 requires that the \$300,000 threshold must be reached in each of four consecutive years. When audits are not completed timely, any change beyond the four-year span would not be assessed unless the taxpayer has signed a waiver of the statute of limitations. The provision for waiver is described in section 532.1 of the Revenue and Taxation Code.

In our previous survey, we recommended the assessor improve the method of identifying mandatory audits by properly coding certain categories of business property such as apartment complexes, qualifying welfare-exempt organizations, and business-related or documented vessels for audit status. Our current review found that apartments and qualifying welfare-exempt organizations are now properly coded for inclusion in the mandatory audit listing. We still have a concern regarding business-related vessels; this is discussed later in this report.

***Recommendation 10: Bring the mandatory audit program to current status.***

In our prior survey, we found that all mandatory audits were completed in a timely manner, except for apartments, qualifying welfare-exempt organizations, and business-related vessels. During our current review we found that the mandatory audit program is now in arrears.

For the 1997-98 assessment year, the mandatory audit workload consisted of 1,123 accounts. Of these 1,123 mandatory audits, 896 audits were due as part of the normal 4-year audit cycle and 227 audits were carried over from prior years (audits due in prior years but not completed and carried over into the current production cycle.) The business division completed only 673 of these 1,123 mandatory audits in the 1997-98 assessment year. The uncompleted 450 mandatory audits were carried over to the 1998-99 assessment year audit production cycle and added to the audit workload of the nearly 700 audits due in the current year. Obviously, mandatory audit production is not keeping up with the anticipated workload, and the mandatory audit program is in serious arrears.

A significant contributing factor to the mandatory audit production deficit has been a dramatic increase in the number of assessment appeals that are being filed by property tax agents representing business owners. Prior to 1994, the business division handled approximately 500

appeals per year. In 1994, the number of appeals handled by the business division increased to 706. Appeals increased to 791 in 1995, and now the business division handles approximately 575 appeals per year. These appeals are handled by the auditor-appraisers as part of their regular workload, which decreases the time available to perform mandatory audits.

The business staff averaged 15 auditor-appraiser positions for several years, but recently there have only been 14 auditor-appraisers. During our fieldwork the business division hired three auditors with one more expected to be hired in the immediate future. This would bring the audit staff level up to 18.

We strongly recommend the mandatory audit program be brought up to current status. The assessor should continue to allocate the necessary resources in staffing and training to ensure that the provisions of section 469 are met. Workload assignments should be monitored and reviewed to establish a priority for mandatory audit production, and an alternative method of handling the assessment appeals caseload should be developed.

### **Non-mandatory Audit Program**

#### ***Recommendation 11: Expand the nonmandatory audit program.***

Our last two surveys have recommended the expansion of the nonmandatory audit program. Nonmandatory audits serve to increase taxpayer reporting compliance. As previously discussed, audit resources have been primarily dedicated to the mandatory audit program and the appeals workload. Though the number of nonmandatory audits has increased in the last few years, most of the nonmandatory audits completed are on businesses that are related to a mandatory account.

In order to maintain the integrity of a self-reporting tax system, it is imperative for the system to include the possibility for any account in the system to be audited. Without a regular nonmandatory audit program, taxpayers know that there is little likelihood of an audit if their taxable business property value is below \$300,000. This could encourage taxpayers to keep their reporting below this level just to keep from being audited. Reporting differences in these nonmandatory accounts will go uncorrected unless a problem arises that triggers an audit. A good nonmandatory audit program would select accounts for audit at some predefined level and frequency of coverage.

We recommend that the nonmandatory audit program be expanded to audit more of the non-mandatory accounts.

### **BUSINESS PROPERTY STATEMENT PROCESSING**

Section 441 provides that every person owning taxable personal property having an aggregate cost of \$100,000 or more is required to file a signed Business Property Statement (BPS) with the assessor. Every person owning personal property that does not meet the above requirement must, upon request of the assessor, file a signed BPS.

## **Document Processing**

The processing of business property statements is one of the most time consuming tasks of the business property staff. The auditor-appraisers process the BPS's that pertain to mandatory audit business accounts. They review the current and prior year's BPS, review the audit, make adjustments if necessary, and enter the reported costs into the computer system that calculates the trended cost. The personal property appraisers process the nonmandatory accounts. Many leasing companies file their BPS on computer disks that are processed by property assessment specialists, under the direction of a personal property appraiser.

## **Direct Billing**

Direct billing is a method of assessing the property of qualified small business accounts without the annual filing of a BPS. Once an initial value is established, the taxpayer is not required to file an annual BPS and the value is continued for several years. The taxpayer is queried annually to determine any changes in their status, such as equipment additions or deletions, name changes, etc. The assessor has established the following criteria for selecting those accounts eligible for direct billing:

- Personal property value of less than \$20,000 (total equipment cost less than \$30,000 or a physical appraisal on file.)
- Taxpayer has only one location.
- Taxpayer has a limited growth potential or a history of a constant value.
- Taxpayer has no leased equipment.

The business property division staff reviewed the direct billing accounts for the 1998 assessment year by either mailing a BPS or a Code 8 Card (a form designed specifically for direct billing review purposes). They plan to continue reviews on a three-year cycle.

## **Discovery**

Discovery of new businesses and relocation of existing businesses is an ongoing process in the business property division. To assist in this discovery process, the business property division staff conducts a countywide field canvass every year using personal property appraisers, property assessment specialists, and support staff. The field canvass team reviews every business location every year. Correct ownership is determined, and new businesses are enrolled and sent a BPS. Other sources of discovery include fictitious business name filings, the audit process, leased equipment lessors and lessees, and other BPS filings.



## VALUATION FACTORS

### Equipment Index Factors

The BOE annually publishes price index and percent good factors, which are used to compute current replacement costs from historical costs for valuation purposes. Assessors' Handbook Section 581 (AH581), *Equipment Index Factors*, contains 12 index factor categories for commercial equipment and six index factor categories for industrial equipment. The percent good tables for commercial and industrial equipment are based on a constant terminal income stream adjusted for declining income. Except for semiconductor and biopharmaceutical manufacturing equipment, the BOE does not recommend specific economic lives for commercial or industrial equipment.

Also included are index factor and percent good tables for agricultural and construction equipment. Both of these categories have two tables, one for equipment that was purchased new and one for equipment purchased used.

Our prior survey addressed the assessor's use of straight-line depreciation in the valuation of machinery and equipment. We found that the assessor no longer uses straight-line depreciation but rather the income stream premise employed in AH 581.

***Recommendation 12: Use the BOE's equipment index factors from AH 581 as intended.***

The business property division staff averages several price index tables from the AH 581 to compute the replacement cost new of equipment rather than using the schedule designed for the particular type of equipment being appraised. The county averages the 12 classes of commercial types of equipment into two price index tables, and the six groups of industrial types into three price index tables.

This average index factor is applied to all equipment in the respective class to determine the replacement cost new (RCN) of individual property items. The RCN is then multiplied by the percent good factor to arrive at the replacement cost new less depreciation (RCNLD).

The AH 581 contains price index factors for agricultural and construction equipment when purchased new or used. We found the business property division staff used only the tables for "new" equipment when appraising agricultural and construction equipment. Taxpayers are not asked to designate on their BPS whether equipment was purchased new or used. We found that even when such equipment was reported as purchased used, the price index factor tables designated for new equipment were used.

Because there is a wide range of factors, it is important that the appropriate table is selected. While overall totals may show only a small difference, the accuracy of specific categories will be materially distorted. Averaging indices sacrifices accuracy for convenience. Some classifications of equipment will be over assessed, some under assessed, and some will be properly assessed.

Also, when valuing agricultural and construction equipment, the AH 581 tables provide for a large initial drop in value when this type of equipment is purchased new. This large drop in value typically does not occur when the equipment is purchased used. When no consideration is given for used equipment purchased, the used equipment is undervalued.

We recommend that the appropriate factor for each category of equipment be used. Averaging commercial, industrial, agricultural, and construction indexes sacrifices accuracy and results in incorrect assessments for most taxpayers.

### **Computers and semi-conductor equipment**

We found the business property division staff properly uses the recommended BOE tables for valuing both computers and semi-conductor equipment.

### **LEASED EQUIPMENT**

The leasing section of the business property division is responsible for processing, valuing, tracking, and controlling the assessment of leased equipment. This section is made up of a supervising appraiser, two appraisers during the processing season, two property assessment specialists, two full-time support staff, and a part-time support staff member. More than \$819 million in assessed value of leased equipment was assessed for the 1998-99 assessment year.

Problems in the reporting, tracking, and assessing of leased equipment are common in most counties. One of the best ways to minimize these problems and to facilitate the assessment process for leased equipment is the use of a computerized electronic reporting system. The leasing section utilizes such a system, which allows large leasing companies the option of reporting the required information directly on computer disk. The leasing section processes the information and returns the disk, which now contains leased equipment assessed values, back to the lessor. This process is very efficient for both the assessor and lessor, and it also provides the lessor with detailed information on the valuations made by the assessor. We commend the assessor and his staff for this innovative solution to this complex and time-consuming aspect of the leased property assessment program.

Prior to the 1996 lien date, leased property had to be reported and assessed at the location where it was used. That requirement was changed with the enactment of section 623. Effective for the 1996 lien date, leased equipment could be assessed to the lessor at his principal place of business in the county, or at the situs within the county where most of the equipment is located. This has given the assessor the option of distributing leased equipment assessments by individual situs, by tax-rate areas, or at one central location.

The assessor implemented our prior survey's recommendation to annually review the BOE's listing of property leased to state assessees. The utilization of this information, transmitted to the assessor on BOE Form V-600B, can be a useful discovery tool in locating otherwise unreported leased equipment.

The valuation of leased equipment can involve a trade level issue, as explained in Property Tax Rule 10. Trade level is an adjustment to cost when self-manufactured or wholesale-purchased equipment is used as leased equipment at the retail market level.

***Recommendation 13:       Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.***

As described in our prior survey, the San Diego County Assessor requires the lessor to report any leased equipment on the annual BPS. The leased equipment is then routinely assessed to the lessor except where the lessor is a bank or financial institution.<sup>5</sup> When the lease terminates, the lessor stops reporting the equipment, and consequently the equipment is not assessed. Assessments continue only if the lessee begins reporting the formerly leased equipment as part of his or her equipment.

The assessor has no formal policy to track such equipment. One method to ensure that a former lessee reports off-lease equipment is to compare the lessor's current year filing with the prior year. Any leases that have been terminated would not appear in the lessor's current year filing. The prior year lease information could then be compared with the lessee's current filing. If the lessee failed to report this formerly-leased equipment, further investigation would be needed. The equipment may have either been returned to the lessor or kept by the lessee, depending on the leasing agreements and the needs of the lessee. If kept by the lessee, the new owner is required to report the equipment's original cost and the acquisition year. At this time, lessor/lessee files are cross-checked only if the amount involved is \$100,000 or more.

We again recommend that the assessor implement procedures to ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.

## **RACEHORSES**

***Recommendation 14:       Audit racehorse owners as required by Property Tax Rule 1045.***

Of the more than 540 racehorses in the county, at least two racehorse owners have had a gross tax liability of more than \$2,000 in each of the last four years. Neither of these taxpayers has been audited by the assessor as required by Property Tax Rule 1045.

Property Tax Rule 1045 requires the assessor to audit the tax records of any racehorse owner with a gross tax liability of more than \$2,000 for each of four consecutive calendar years. When performing an audit pursuant to this rule, the assessor is also required to audit the taxpayer's records pertaining to property having tax situs at the same location.

We recommend that the assessor audit those racehorse owners with a gross tax liability of more than \$2,000 as required in Property Tax Rule 1045.

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<sup>5</sup> Section 235 of the Revenue and Taxation Code provides that if the lessor of personal property is a bank or financial corporation, the lessee is the owner for property tax purposes.

## AIRCRAFT AND VESSELS

### Business-Owned Aircraft and Vessels

For the 1998-99 assessment roll, there were approximately 80 noncommercial aircraft and 36 marine vessels with assessed values of \$300,000 or more.<sup>6</sup> None of these aircraft or marine vessels have been audited.

**Recommendation 15:**        *Verify whether aircraft and marine vessels that have full value of \$300,000 or more are subject to mandatory audit.*

When these aircraft and vessels are used in a business-related manner, they fall under the mandatory audit guidelines of section 469. Although many if not most of these high-value aircraft and vessels are not used for business purposes, it is likely that several are so used. The assessor does not currently have adequate information to indicate which are business properties and which are not. We recommend the assessor obtain the necessary information to categorize these aircraft and vessels.

### Historical Aircraft

Section 220.5(d) defines historical aircraft as “any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.”

Aircraft of historical significance (or historical aircraft) are exempt from property taxation. The exemption, however, is not automatic. Rather, the owner of a historical aircraft has to submit a claim for exemption from property taxes (Form BOE 260-B, *Claim for Exemption from Property Taxes of Aircraft of Historical Significance*) on or before the deadline of 5:00 p.m. on February 15. A filing fee of thirty-five dollars (\$35) is also charged and collected by the assessor upon the initial application for exemption.

In addition to the preceding requirements, aircraft of historical significance shall only be exempt if all of the following conditions are satisfied:

- The assessee is an individual owner who does not hold the aircraft primarily for purposes of sale;
- The assessee does not use the aircraft for commercial purposes or general transportation; and
- The aircraft is available for display to the public at least 12 days during the 12-month period immediately proceeding the lien date for the year for which exemption is claimed.

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<sup>6</sup> Values prior to application of exemption for qualifying vessels.

This and other pertinent information is requested on Form BOE 260-B. On the form, the aircraft owner certifies and declares that he or she has satisfied all three conditions and that all information provided is true, correct, and complete under penalty of perjury.

Section 220.5(c) requires that the affidavit be signed before a notary public or the assessor or assessor's designee.

***Recommendation 16: Require the notarization of the affidavit for historical aircraft exemption as required by section 220.5(c).***

For the 1998-99 assessment year, the assessor granted exemptions for 157 historical aircraft. Of these, only 10 had properly notarized affidavits for exemption. Even though the remaining 147 historical aircraft accounts contained no notarized affidavit or acknowledgment from a notary public, or the assessor or his designee, the aircraft were granted exemption from property taxes. Some of the submitted affidavits for historical exemption have the owner's name typewritten on them but lack the signature of the owner or his representative. Granting historical aircraft exemptions without proper notarization has been ongoing for several years.

Section 220.5(c) explicitly requires the notary or acknowledgment of the affidavit for historical exemption when it mandates, in part:

“ . . . when claiming an exemption pursuant to this section, the claimant shall provide all information required and answer all questions contained in an affidavit furnished by the Assessor. The claimant shall sign and swear to the accuracy of the contents of the affidavit before either a notary public or the Assessor or his or her designee, at the claimant's option.”

We recommend the assessor require the notarization of the affidavit for historical aircraft exemption as required by section 220.5(c).

**Documented Vessels**

Documented vessels as defined in section 130, and certain vessels registered with the Department of Motor Vehicles (DMV), may qualify for a partial exemption from property taxes if they are used for purposes described by section 227. Under this exemption, qualifying documented vessels are assessed at 4 percent of their full cash value. Sections 255 and 275.5 define the filing deadlines and exemption amounts. The assessee is responsible for the timely filing of the required documents, such as the vessel property statement, affidavit, etc.

Form BOE 576E, *Affidavit For 4 % Assessment of Certain Vessels*, is required to receive the 96 percent exemption. Among other requirements, to qualify for the exemption the owner of the documented vessel must submit to the assessor a signed affidavit no later than 5:00 p.m. of February 15 of each year.

***Recommendation 17: Follow statutory guidelines when exempting late-filed documented vessel affidavits.***

We found the assessor has been very lenient in granting the exemption to owners of documented vessels and certain vessels registered with the DMV who have submitted their affidavits either unsigned or beyond the mandated statutory deadline of February 15. This leniency defeats the purpose of setting up a deadline, is unfair to those who have timely complied with the deadline, and is contrary to the requirements of section 275.5.

Section 275.5 states that when the affidavit is filed after the statutory deadline, the amount of the exemption is reduced. For those affidavits filed between February 16 and August 1, the assessor is required to reduce the exemption by 20 percent. The assessor does not have the statutory authority to extend or ignore the deadline when granting the proper exemption amount.

We recommend the assessor follow statutory guidelines and implement the provisions of section 275.5 when exempting a late-filed documented vessel affidavit.

## **APPENDIX**

### **A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP**

## **SAN DIEGO COUNTY ASSESSMENT PRACTICES SURVEY**

### ***Survey Program Director:***

Charles Knudsen	Chief, County Property Tax Division
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### ***Survey Team Supervisor***

Claudia Tendal	Supervising Property Appraiser
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### ***Survey Team***

Hadley Alger	Supervising Property Appraiser
James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Beverly Morrison	Associate Property Auditor Appraiser
Raymond Tsang	Associate Property Auditor Appraiser
Manny Garcia	Associate Property Auditor Appraiser
Mike Allen	Associate Property Appraiser
Les Morris	Associate Property Appraiser
Douglas Williams	Associate Property Appraiser
Andy Anderson	Associate Property Appraiser
Chris Jimenez	Associate Property Appraiser
Tina Krause	Assistant Property Appraiser
Delia Garcia	Tax Technician
Rick Kozman	Tax Technician

## B. THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>7</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board of Equalization (BOE) in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)<sup>8</sup>
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
  - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
  - b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years

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<sup>7</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>8</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.



prior to the roll currently being sampled and the lien date of the current sampling.

- c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
  - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of Article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
  - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?
  - b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

- c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
  - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of Article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
  - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
- 7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
  - 8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

## **C. RELEVANT STATUTES AND REGULATIONS**

### **Government Code**

#### **15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

#### **15641. Audit of Records; Appraisal Data Not Public.**

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as

defined in Section 408. However, no information or records, other than “market data,” which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor’s office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor’s requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has “significant assessment problems,” as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

**15645. Survey report; final survey report; assessor's report.**

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.**

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

## Revenue and Taxation Code

### 75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
  - (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
  - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
    - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
    - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
  - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

## Title 18, California Code of Regulations

### Rule 370. **Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
  - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, “significant assessment problems” means procedure(s) in one or more areas of an assessor’s assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
  - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
  - (2) the sum of all the differences between the board’s appraisals and the assessor’s values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor’s entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, “areas of an assessor’s assessment operation” means, but is not limited to, an assessor’s programs for:
  - (1) Uniformity of treatment for all classes of property.
  - (2) Discovering and assessing newly constructed property.
  - (3) Discovering and assessing real property that has undergone a change in ownership.
  - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
  - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
  - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
  - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
  - (8) Discovering and assessing property that has suffered a decline in value.
  - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of “significant assessment problems,” as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.



## **ASSESSOR’S RESPONSE TO BOARD’S FINDINGS**

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendation in the survey report. The San Diego County Assessor’s response begins on the next page. The Board has no comments on the response.



# COUNTY OF SAN DIEGO

GREGORY J. SMITH  
ASSESSOR/RECORDER/COUNTY CLERK

Internet: <http://www.co.san-diego.ca.us>



ASSESSOR'S OFFICE  
1600 PACIFIC HIGHWAY, RM. 103  
SAN DIEGO, CA 92101-2480  
(619) 236-3771 • FAX (619) 557-4056

RECORDER/COUNTY CLERK'S OFFICE  
1600 PACIFIC HIGHWAY, RM. 260  
P.O. BOX 121750, SAN DIEGO, CA 92112-1750  
(619) 237-0502 • FAX (619) 557-4155

March 20, 2000

Charles Knudsen  
Chief, County Property Tax Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Knudsen:

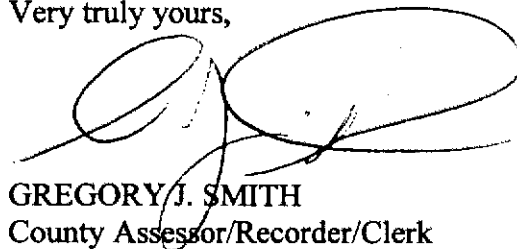
Pursuant to Section 15645 of the California Government Code Section, San Diego County is submitting our response to the recommendations contained in the Assessment Practices Survey of the 1998/99 assessment roll conducted by the State Board of Equalization survey team. Please incorporate my response in your final Assessment Practices Survey Report.

In reviewing my response, you will note that we agree with most of the recommendations. Several of the recommendations are already being implemented and others will be implemented as soon as feasible to the extent that time and personnel resources allow.

I would like to express my appreciation to the entire State Board of Equalization survey team, especially you, Claudia Tendal, and Hadley Alger for the professional manner in which this survey and conference was conducted. The constructive comments and cooperative attitude throughout the survey contributed greatly to the final report that will help improve my operation. Finally, I wish to acknowledge my staff for their outstanding efforts, dedication and commitment to public service.

Thank you for the opportunity to provide our comments. If you have any questions, please do not hesitate to contact me directly at (619) 531-5507.

Very truly yours,



GREGORY J. SMITH  
County Assessor/Recorder/Clerk

GJS:jh

**Response to State Board of Equalization Final draft report of**  
**"San Diego County Assessment Practices Survey"**  
**Dated March 2000**

***Recommendation 1: Review or spot check building permits from non-automated permit-issuing agencies.***

Concur. The Assessor's permit system is being reviewed for possible revisions for better standardization and accountability. Procedures for random sampling and spot-checking for all permit-issuing agencies will be established as a part of this process. Although we are confident that we are receiving all of the building permits that add value to a property, we will spot check each city as recommended.

***Recommendation 2: Update income information periodically.***

Concur. Our office will take a proactive approach to obtaining data directly from individual growers in the Agricultural Preserve program, as the primary source for lease information. To that end, an "Income and Expense-Agricultural Preserves Statement" has been designed and will be mailed out annually. We will utilize this statement beginning this appraisal year, for the purpose of obtaining current data for valuing these properties. The prior method of obtaining this data was to contact the County of San Diego Agricultural Department, City of San Diego, and the U.S. Bureau of Land Management. These sources have proven to be very effective in the past and will continue to be used to obtain additional market data in the future.

***Recommendation 3: Request that the county counsel make a demand for possessory interest lease information from the United States Forest Service (USFS).***

Concur. Our office will request County Counsel to make a demand for possessory interest lease information from USFS as recommended. It should be noted that the Assessor's Office has received information of all transfers and new leases from the USFS. The only information lacking from their notification was the owner's name and address. We have always been able to obtain the information required to properly bill the owners from a variety of other sources. Therefore, this has not been a problem.

***Recommendation 4: Classify and enroll manufactured homes as personal property.***

Manufactured homes have always been treated as personal property and billed correctly in San Diego County. Due to limitations of our current system, these homes are carried on the Real Property assessment rolls. Manufactured homes are assigned a special series of parcel numbers which allow the Auditor to assign unique tax rates. These unique tax rates exclude all special assessments. This procedure allows for these properties to be taxed as personal property, to receive supplemental tax bills, and to be indexed by the proper inflation factor as required by State law. San Diego County is in the process of implementing a new integrated property tax system that will include the Assessor, Auditor and Tax Collector. Our new system will allow mobile homes to appear as personal property on the regular tax bill.

***Recommendation 5: Document on the appraisal record the source and value obtained from recognized manufactured home value guides.***

Disagree. The Assessor's policy is to use only the *Kelley Blue Book Official Manufactured Housing Guide* in valuing manufactured homes. Appraisers are directed to use the abbreviations ABM (Average Bench Mark), LBM (Low Bench Mark), and HBM (High Bench Mark). As a result, writing "Kelley Blue Book" on every manufactured home sales record is considered redundant and has no effect on the valuation of the manufactured home.

***Recommendation 6: Mail a Change in Ownership Statement to taxpayers who do not return the Mobilehome Owner's Declaration.***

Concur. We are in the process of contracting with a programmer to implement the necessary software changes which will automatically send an official BOE prescribed change in ownership statement if the Mobilehome Owner's Declaration is not returned. We will modify the *Mobilehome Owner's Declaration* with the notice that the information is required under Revenue and Taxation Code Section 480. Due to the fact that the appraisal is primarily based on the *Kelley Blue Book*, this change would have very little, if any, effect on the valuation of mobile homes.

***Recommendation 7: Appraise mineral properties as a unit.***

Concur. In the future mineral properties will be valued as an appraisal unit and compared with the base year value to determine the proper enrollment. It has been our experience that most of the sand and gravel properties have very old base year values. This new procedure would not result in any significant value changes for these properties.

***Recommendation 8: Utilize the income approach to value for the appraisal of regulated private water companies.***

Concur. The income approach to value will be used for the appraisal of regulated water companies when annual reports are received from the California Public Utilities Commission. Although we agree that the income approach is a proper method, we feel that the difference between Historical Cost Less Depreciation method and the income approach will not result in any significant differences in value.

***Recommendation 9: Identify and assess all taxable improvements and water rights on water company property.***

Concur. A concerted effort will be made to identify and assess all taxable improvements and water rights on water company properties. It is unlikely that any missed improvements would have resulted in significant new assessments. Therefore, we chose to allocate our staff to higher priority items. The value of the majority of the mutual water companies are reflected in the value of the individual properties that they serve.

***Recommendation 10: Bring the mandatory audit program to current status.***

Concur. We agree that our mandatory audit program is not current. As stated in the survey, we have experienced an increase in personal property appeals. Many of these appeals are handled by the audit staff. We have also experienced a staffing problem and are currently experiencing a problem filling vacant positions. We will continue to look for ways to meet the audit workload demands despite the appeals and staffing problems. Our goal has always been, and will continue to be, to complete all mandatory audits in a timely fashion.

***Recommendation 11: Expand the non-mandatory audit program.***

We submitted detailed information to the audit team listing the non-mandatory audits performed in 1995 through 1998. The information indicates that we performed an increasing number of non-mandatory audits during this period: 1995 – 17 audits, 1996 – 27 audits, 1997 – 47 audits, and 1998 – 51 audits. Each year we request the appraisal staff to refer for audit any non-mandatory accounts they feel are not reporting correctly. These accounts are added to the audits for that year and are included in the numbers above. The figures illustrate that we are performing an increasing number of non-mandatory audits. Since our mandatory audit program is not current, (Recommendation #10), we feel that expansion of our non-mandatory audits beyond our current numbers is unrealistic at this time.

***Recommendation 12: Use the BOE's equipment index factors from AH581 as intended.***

When taxpayers file their business property statements, they are reporting mixed types of equipment on schedule A in the equipment column. This information is not sufficiently detailed to accurately determine the type of equipment reported. We believe that for mass appraisal valuation, the averaging of general category types provides a correct value. In fact, Marshall & Swift states, "In specific instances where there is not a clear choice as to which of our forty-seven categories to use, we would then recommend that the Average of All would be as accurate as any to measure general cost changes". Some of our tables are an average of the Marshall & Swift factors and some are straight from the Bureau of Labor and Statistics. We do use the tables as provided by the SBE for the three categories of computers. Overall, we feel that our method of valuation results in correct values.

***Recommendation 13: Ensure that leased equipment retained by the lessee upon lease termination continues to be assessed.***

Concur. We already track terminated leases in excess of \$100,000. Beginning with the 2000 filing, we will set up procedures to identify and track all leases terminated during the last year. We do not believe that we are missing any significant value because in many cases the equipment is turned back to the lessor, or has little value at the point when the lease is terminated.

***Recommendation 14: Audit racehorse owners as required by Property Tax Rule 1045.***

Concur. We only have two race horse taxpayers in San Diego County who exceed \$2,000 in tax liability each year. One of these taxpayers reports approximately 298 horses each year, the other reports approximately 90 horses. Both of these taxpayers fall under the mandatory audit program for their personal property and fixtures. In the future, we will audit their earnings records as part of our mandatory audit. The dollar amount is insignificant.

***Recommendation 15: Verify whether aircraft and marine vessels that have full value of \$300,000 or more are subject to mandatory audit.***

Concur. Beginning with the year 2000, we will identify and audit the records of all aircraft and vessels used for business purposes. If the value exceeds \$300,000, we will make these accounts part of our mandatory audit program. We feel strongly that the amount that will be added to the roll is insignificant because we review market value data each year and we do not rely on cost to arrive at the assessed value.

***Recommendation 16: Require the notarization of the affidavit for historical aircraft exemption as required by section 220.5(c).***

Concur. For the 2000-filing year, we will require that the form be notarized or signed in front of a deputy assessor as required by section 220.5(c). Legislation has been proposed to allow this form to be signed under penalty of perjury rather than to have the affidavit notarized.

***Recommendation 17: Follow statutory guidelines when exempting late-filed documented vessel affidavits.***

Concur. Our policy has always been to consider any documented vessel affidavits that were not postmarked by the filing deadline of February 15 to be late. This will continue to be our policy. We will make additional efforts to insure compliance in the future.